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FEBRUARY 15, 2008 ISSUE

PRETORIA 00000474 001.2 OF 005

¶1. (U) Summary. This is Volume 8, issue 10 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:
- Outlook for SA's Economy Weakens
- High Marks for Economic Freedom
- Vehicle Sales Fall on Higher Interest Rates
- Eskom' French Kiss
- Power Rationing on the Cards for SA -
  To Load-Shed or Not to Load-Shed
- Finland Pledges Assistance for ICT
  Infrastructure Development
- Fiber Optic Cables Set to Reduce Costs
- Funding Hampers Broadcast Signal Carrier
- Vodacom Launches New Division
End Summary.

Outlook for SA's Economy Weakens

¶2. (U) The latest Investec Purchasing Managers Index (PMI) revealed that manufacturing activity fell from 52.1 points in January to 46.4 points in February, a four-and-half-year low. Manufacturing is the second biggest contributor to South Africa's economy (16%) after financial services, so the PMI slump points to softening growth in the first quarter. "In all likelihood, the decline reflects not only the effect of a softening real economy, but also the effect of the electricity crisis on the sector," Investec said in a statement.

Large manufacturers, together with the mines, have borne the brunt of power rationing which has had a negative effect on both output volumes and order books. Industry, business and households have been asked to cut consumption by up to 10% until 2010 to stabilize power supply in a step that will add to other constraints and may curb the 5% growth of the last four years to between 3% and 4% this

year. (Business Day, March 4, 2008)

High Marks for Economic Freedom

¶3. (U) South Africa has scored a rating of 63.2% on the Heritage Foundation's 2008 index of economic freedom, placing it 52nd in the global ranking. South Africa was rated above average in 7 of 10 categories. It was the third-highest ranked country in Africa, after Botswana and Mauritius. South Africa scored 71.2% for business freedom, with overall freedom to start a business being relatively well-protected, and the process for closing a business being fairly simple and straightforward. In the financial freedom category, regulation was found to be generally consistent with international standards. Heritage also found that the judiciary is independent and that contracts are generally secure. (Business Day, March 4.)

Vehicle Sales Fall on Higher Interest Rates

¶4. (U) According to the National Association of Automobile Manufacturers (NAAMSA), new vehicle sales declined by 12% y/y in February, from 52,526 units in February 2007 to 46,248 units in February 2008. Passenger car sales were worst hit, falling 14.8% y/y. "Sales continued to be affected by rising inflationary pressures, the effect of cumulative interest rate rises and high personal debt," NAAMSA said in a statement. The commercial sector appeared to be boosted by massive government spending on infrastructure, while consumers curbed their spending. NAAMSA said
Qinfrastructure, while consumers curbed their spending. NAAMSA said

medium commercial and extra-heavy vehicle sales increased 2.2% and 19.8%, respectively. "Supported by strong investment and infrastructural spending, sales of vehicles in the medium and heavy truck segments of the industry had maintained their strong upward momentum," NAAMSA said. On the export front, February was the best-
performing month on record, with exports up 23.3% from the same period last year. NAAMSA said the outlook for vehicle exports was promising this year, and would benefit both the component industry's production volumes and the country's trade balance. (Business Day, March 4, 2008)

Eskom' French Kiss

¶5. (U) Eskom may still be trying to clear its head after a week of intense courtship from the French, who rolled into town with hard cash, skills, and intense ardor to make all of Eskom's capacity dreams come true. There was nothing subtle in the flirtation of the French business delegation, which accompanied President Nicolas Sarkozy on his first state visit to South Africa February 28-29. Sarkozy made a promise to send French engineers to help Eskom. Alstom won its second six-turbine contract, this time for the new coal-fired power station Bravo in Mpumalanga. Areva CEO Lauvergeon said Areva is involved through the nuclear chain from the mining of uranium to fuel enrichment and from the production and installation of nuclear power plants to nuclear waste recycling, as she sought to

distinguish her company's bid for a fleet of up to 20,000 Megawatts from the bid of rival Westinghouse. Lauvergeon says Areva's technology offering's biggest advantage is that it already has two plants of its design under construction, one in Finland and the other in France. "We are not only a concept," she says, taking a swipe at competitor Westinghouse, which has yet to begin construction of its first AP-1000 in China. Lauvergeon also stated that Areva is "fully integrated in the fuel cycle which means we can deliver nuclear fuel when our clients need it", taking another swipe at Westinghouse, which does not enrich recycle nuclear fuel. Areva also signed agreements to fund nuclear skills training through joint programs with the Nuclear Energy Corporation of South Africa (NECSA). (Financial Mail, March 7, 2008 and Sunday Independent, March 2, 2008)

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Power Rationing on the Cards for SA - To Load-Shed
or Not to Load-Shed
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¶6. (U) Eskom continues to improvise on balancing short supply with growing demand. Minister of Public Enterprises Alec Irwin announced on March 1 that residential demand was still too high and that Eskom would have to re-impose predictable load-shedding via information on its web-site (Eskom has not imposed load-shedding since February 4). Eskom then announced that supplies were adequate and that load-shedding would be deferred, but subsequently issued a warning for system constraints on March 5. The Department of Minerals and Energy (DME) announced that power rationing was an option under scrutiny. The Department continues to meet with miners who complain
Qscrutiny. The Department continues to meet with miners who complain

that mandated ten percent cuts will have a negative affect on jobs and production. Smelters have in turn complained that their ten percent cut is not sustainable. Meanwhile, Eskom and DME scrambled to disavow confusion stemming from rumors that Eskom sought to delay new large projects and hook-ups. DME Director General Nelly Magubane finally confirmed that new projects would be delayed six months while the impacts of demand-side programs were assessed. DME has announced intent to put pricing in place that would provide incentives to reduce usage. Programs for solar power for water-heaters and energy-saving lamps have been announced. (Engineering News, Business Day, March 4-6, 2008)

Finland Pledges Assistance for ICT

¶7. (U) Finland has pledged 12 million ($18 million) in development aid to enhance the Information Communication Technology infrastructure (ICT) in South Africa. The aid will be used to roll out ICT infrastructure investments over the next three years. South Africa's Minister of Communications Ivy Matsepe-Casaburri and Finland's Minister Counselor Marjaana Sall signed an agreement on

the Provincial Information Society Strategy Program on February 25.

Matsepe-Casaburri said ICT development aid would go to Limpopo and the Northern Cape, to strengthen the capacity of the provincial government to infuse their Information Society and Development (ISAD) plan. The Finnish Minister Counselor stated that the ICT Development Counselor at the Finnish Embassy will be assisting with

the roll out. (Business Day, February 25, 2008)

Fiber Optic Cables Set to Reduce Costs

¶8. (U) South Africa could soon have two undersea, fiber-optic cables

connecting it with the rest of the world via the African east coast.

SEACOM, the consortium behind a $600 million project to build a submarine cable system linking South Africa and countries in East Africa with Europe and Asia, announced that the system will be completed by June 17, 2009. The East Africa Submarine System (EASSY) project also finally looks set "to get off the ground". SEACOM has promised to slash the price of international connectivity

by as much as 90%. SEACOM president Brian Herlihy said the aim is to create a high-demand, low-cost model for bandwidth. Until now, bandwidth in the region has been scarce and expensive. In South Africa, Telkom has tightly controlled supply on the system along Africa's west coast. Despite SEACOM's competitive pricing, the telecom companies behind EASSY look set to press ahead, too. They will meet in Tanzania to make a final decision for the $235 million

project by March 7. The EASSY parties will also have to raise another $15 million after Alcatel of France, which was commissioned

to build the system, increased its price. South African investors behind the EASSY project include: MTN ($30 million), Telkom ($18 million) and Vodacom ($11 million). They look set to press on, but

there is concern that the SAG, which fell out with EASSY's backers,

may use controversial new policy guidelines on undersea cables to
Qmay use controversial new policy guidelines on undersea cables to block EASSY from landing in SA. If it does, some operators have vowed to land the system in Mozambique and to provide bandwidth via

terrestrial backhaul links from Maputo. Department of Communications Director-General Lyndall Shope-Mafole drafted the policy guidelines, which were criticized by the press. Shope-Mafole

still has designs for another submarine system known as Uhurunet, which is backed by the New Partnership for Africa's Development (NEPAD), but some operators doubt that the project will ever materialize. There are also projects planned for Africa's west coast. Operators prefer the west coast route because it offers lower network lag time to Western Europe. (Financial Mail, February

29, 2008)

Funding Hampers Broadcast Signal Carrier

¶9. (U) Minister of Communications Ivy Matsepe-Casaburri has criticized the Department of Treasury for failing to finance state-owned signal carrier Sentech, putting its future into doubt. Sentech carries the national TV broadcast signals and needs R955 million ($129 million) to upgrade the network to handle the switch to digital broadcasting, which is required for the FIFA 2010 Soccer

World Cup. She said treasury officials "just don't understand" the

crucial role Sentech could play in lowering SA's exorbitant cost of

communications and taking voice and data services to rural
communities. Matsepe-Casaburri spoke out after Sentech issued a
statement highlighting its precarious financial position after a
government refusal to fund its heavy workload. The Public Finance
Management Act prevents Sentech from private sector borrowing. The

Sentech board is lobbying to change that so it can raise the
necessary capital. Sentech has received R200 million ($26 million)

and has been promised another R450 million ($58 million), leaving it

R300 million ($39 million) short. Sentech also wants to build a
national high-speed wireless network to cut the cost of
communications and hook up schools, clinics and rural communities.

That project will cost R3.1 billion ($402 million) and Sentech has
received just R500 million ($65 million) for that purpose.
According to press reports, Minister of Public Enterprises Alec
Erwin created state-owned Infraco to construct cables linking SA's
main economic hubs, while Sentech was still floundering. Sentech
officials said Infraco was now "a direct competitor", duplicating
some services and sucking up funding. Matsepe-Casaburri said
Infraco and Sentech were both essential for delivering better
telecoms services. (Business Day, March 4, 2008)

Vodacom Launches New Division

¶10. (U) Vodacom Group is investing billions of rands to ensure its
growth as the South African cellular industry matures. Vodacom
unveiled a new division called Vodacom Business and signaled a
willingness to spend big to grow in complementary areas such as new

media and corporate IT services. Vodacom says it will spend at
least R2.5 billion ($345 million) in the next five years. It has
already invested more than R700 million ($90.9 million) in building

a state-of-the-art data center and fiber-optic rings in large
metropolitan areas. Analysts say Vodacom's entry into the market is

a clear threat to Telkom. Vodacom generated R6.9 billion ($896
million) from its 2007 operations and is able to spend billions on
infrastructure, which its rivals cannot afford to do. Vodacom, with
Qinfrastructure, which its rivals cannot afford to do. Vodacom, with

partner Dark Fibre Africa, is investing in a national high-speed,
fiber-optic cable network. Though Vodacom does not have a license
to build a WiMax network, it is piggybacking off the license held by

iBurst operator Wireless Business Solutions, in which it has a 10%
stake (soon to be 25.1%). Vodacom says it will switch on this
network, consisting of 120 base stations, on April 1. The network

will be concentrated in Gauteng, with some infrastructure in the
Western Cape. Vodacom has promised that its WiMax products will
undercut the prices charged by Telkom for ADSL.
(Financial Mail, February 29, 2008)

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